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Executive Director  
Federal Regulatory Policy Issues

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**NYNEX**

April 8, 1996

**Ex Parte**

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
Room 222  
1919 M Street, NW  
Washington, DC 20554

**RE: CC Docket 95-185**

Dear Mr. Caton:

Today, Mr. F. Gumper, Mr. G. R. Evans, and I, representing NYNEX, met with Mr. J. Coltharp, Ms. B. Esbin, Mr. D. Grosh, Mr. Z. Nakazawa, Ms. K. O'Brien, Mr. W. Strack, and Ms. R. Lien of the Wireless Telecommunications Bureau. The purpose of the meeting was 1) to review NYNEX's average costs to terminate traffic on its network; 2) to discuss the ramifications of "federalizing" CMRS/LEC interconnection; and, 3) to review NYNEX's proposed Adaptive Regulatory Model for interexchange access charges. The NYNEX representatives expressed the view that the Commission should act now to review and reform access charges on a comprehensive basis in order to provide the necessary foundation for inter-carrier competition on a fair and economic basis.

The attached charts were used during the discussion.

Sincerely,

cc: Mr. J. Coltharp  
Ms. B. Esbin  
Mr. D. Grosh  
Mr. Z. Nakazawa  
Ms. K. O'Brien  
Mr. W. Strack  
Ms. R. Lien



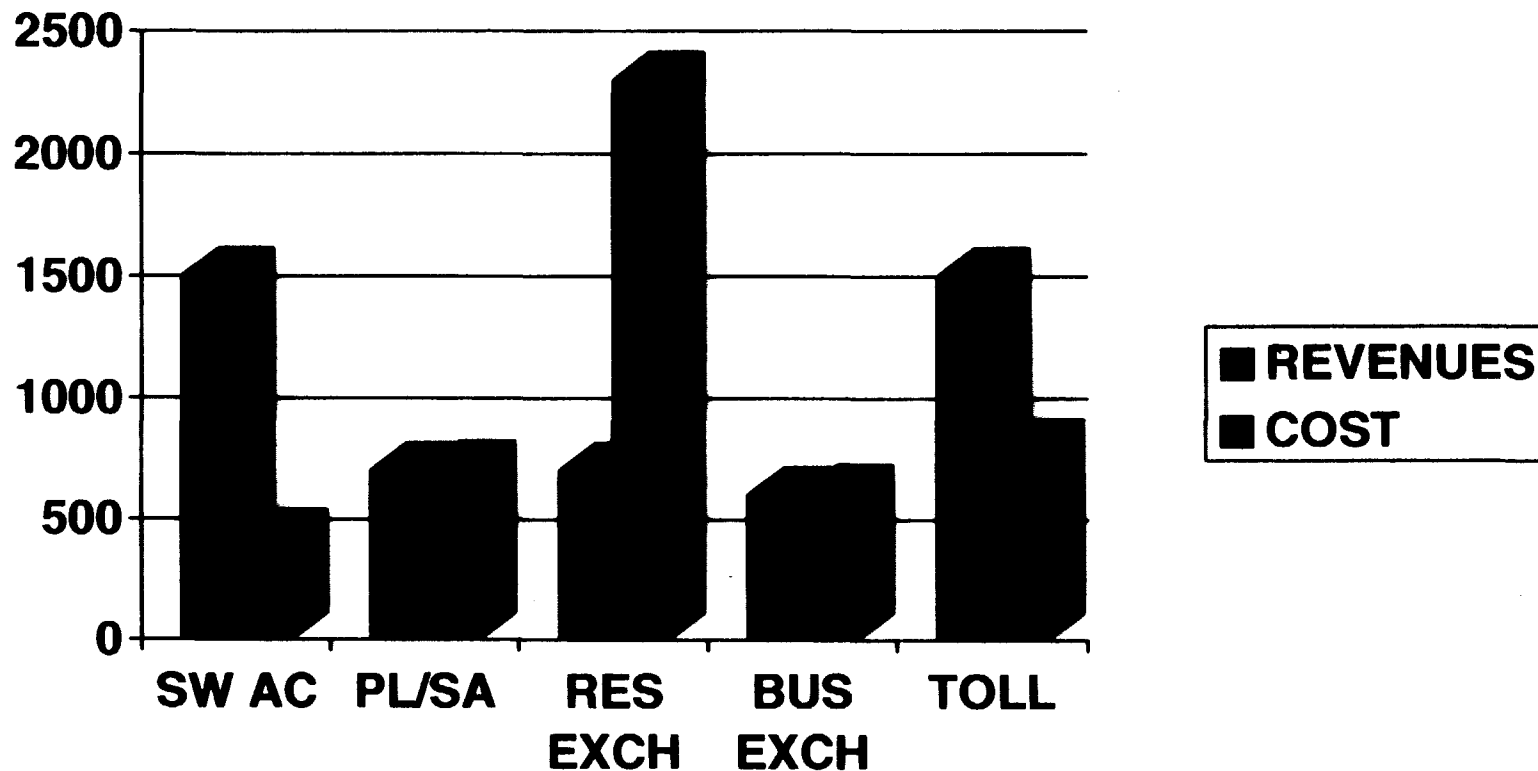
NYNEX  
1300 I Street NW  
Washington, DC 20005  
202-336-7888

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# THE SUBSIDY ISSUE

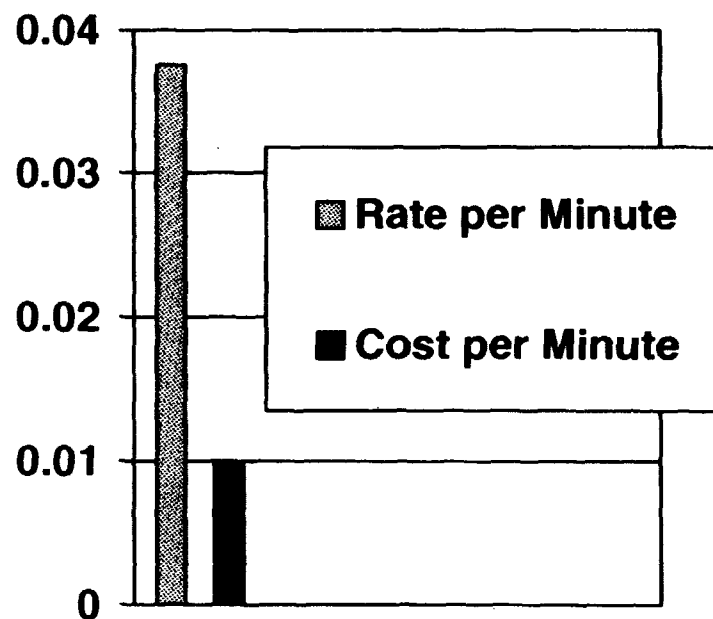
## NYNEX- NEW YORK COST STUDY

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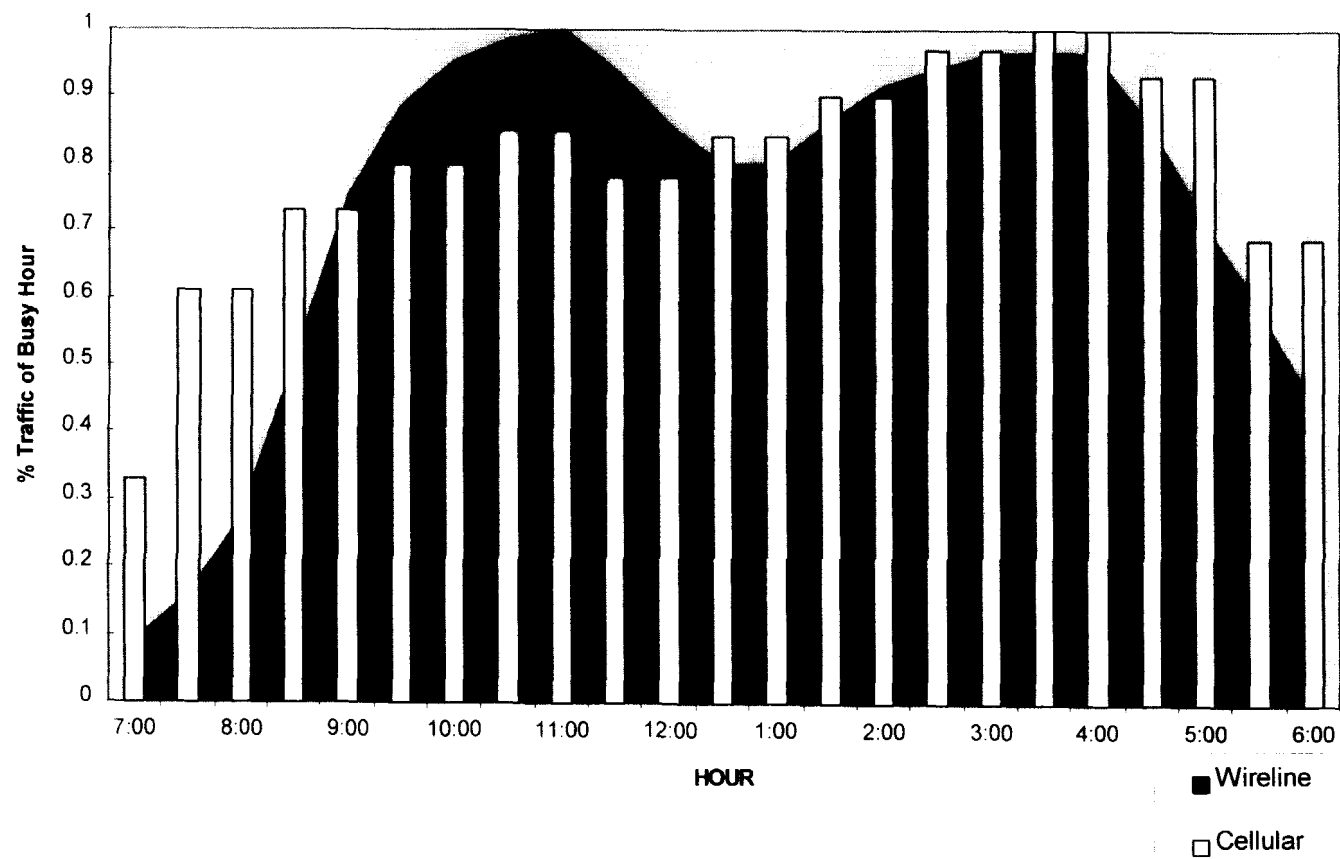
# THE PROBLEM WITH AVERAGED RATES AND EMBEDDED SUBSIDIES

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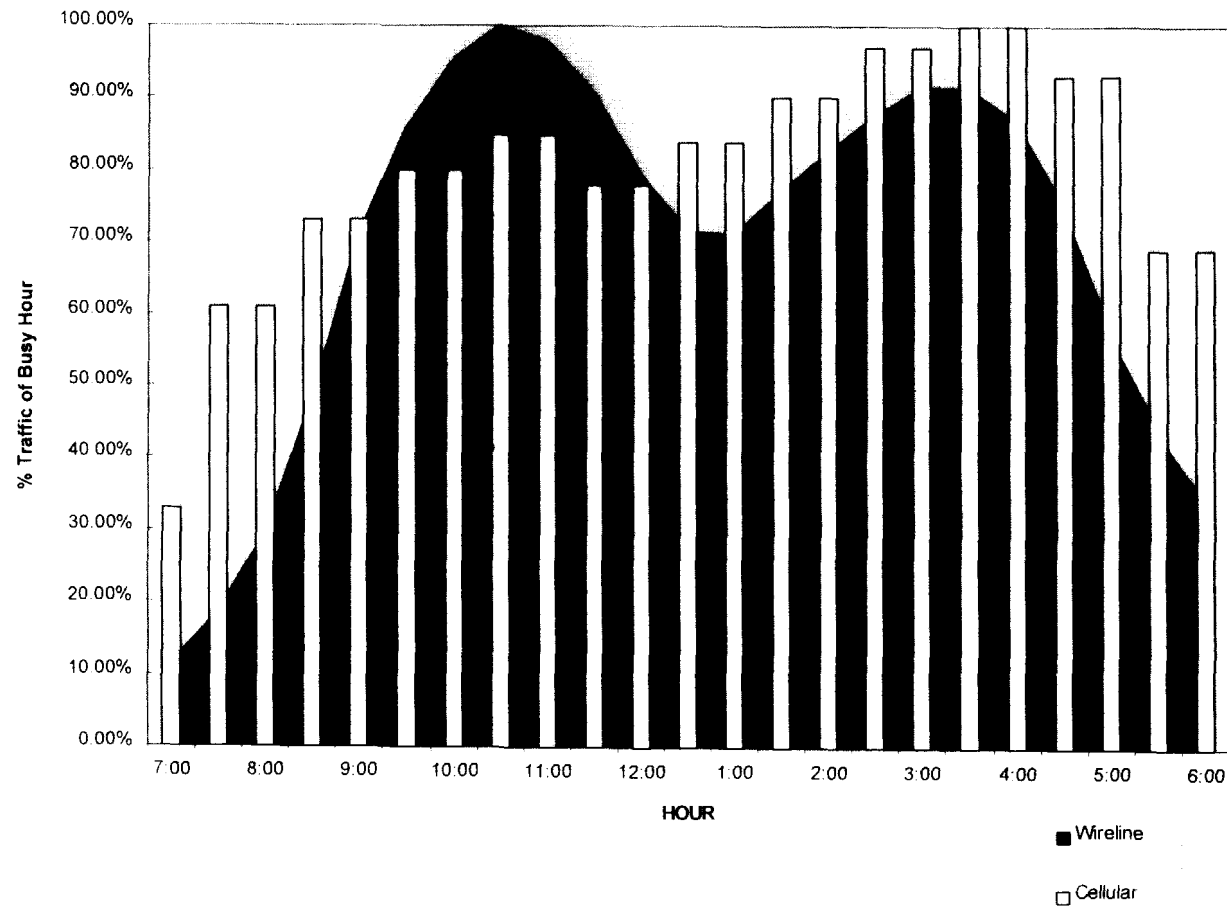


- Current access rate exceeds cost
- \$.0376 per minute rate includes CCL, Local Switching, Interconnection Charge and Trunking
- \$.01 per minute is current cost

Traffic as Percentage of Busy Hour - West 30th Street



Traffic as Percentage of Busy Hour - West 50th Street



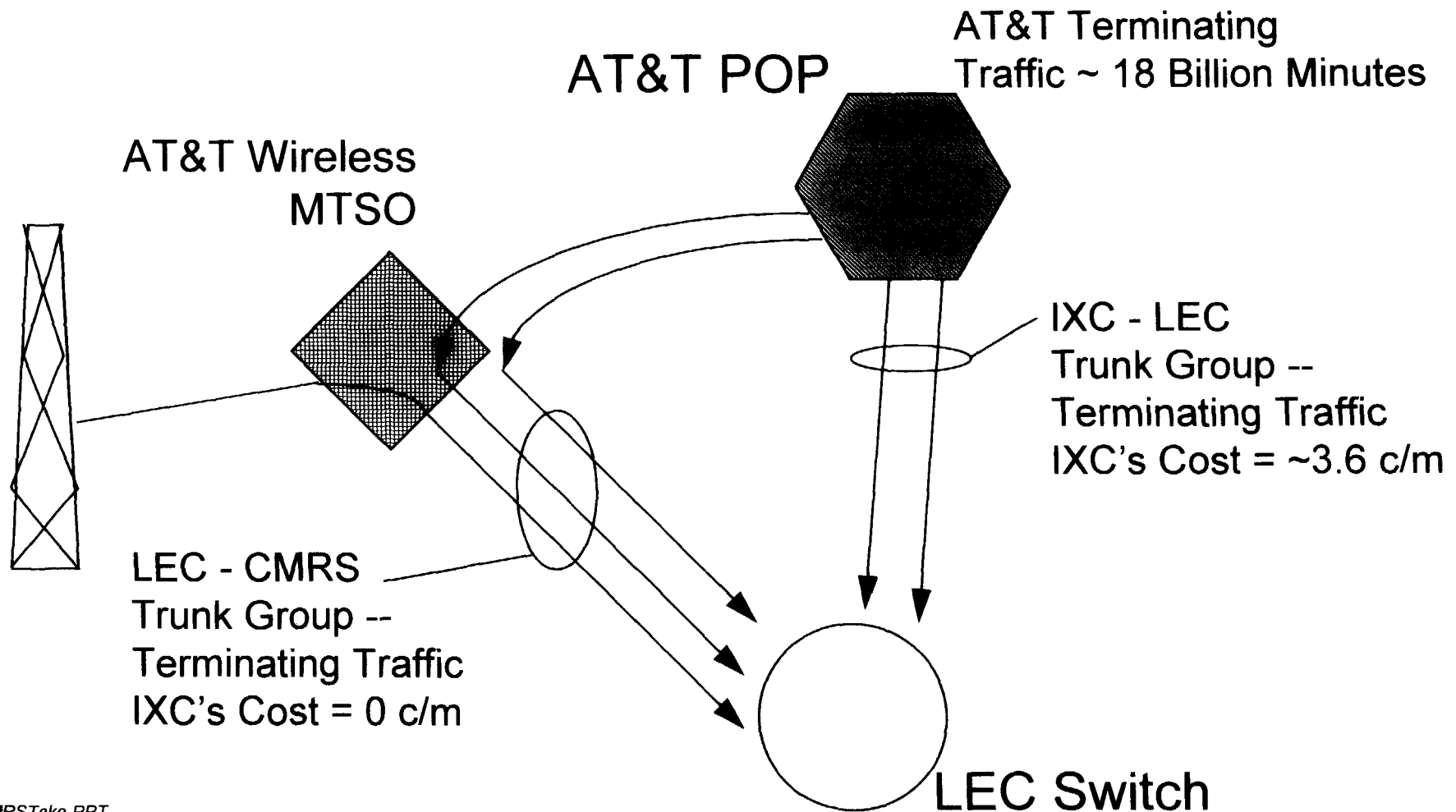
# CMRS -- LEC Interconnection

**NYNEX**

- “Federalization “ of CMRS Interconnection will drive State costs to Interstate jurisdiction.
  - » “Federalization” of 1.2 Billion minutes will drive ~\$28.8M of cost to interstate.
  - » This change happens automatically due to Part 36 Rules.
  - » This represents a cost of ~2.4 cents/minute.

# CMRS -- IXC Arbitrage

**NYNEX**



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# **NYNEX's Adaptive Regulatory Model**



# **Legislation Speeds Need For Access Reform**

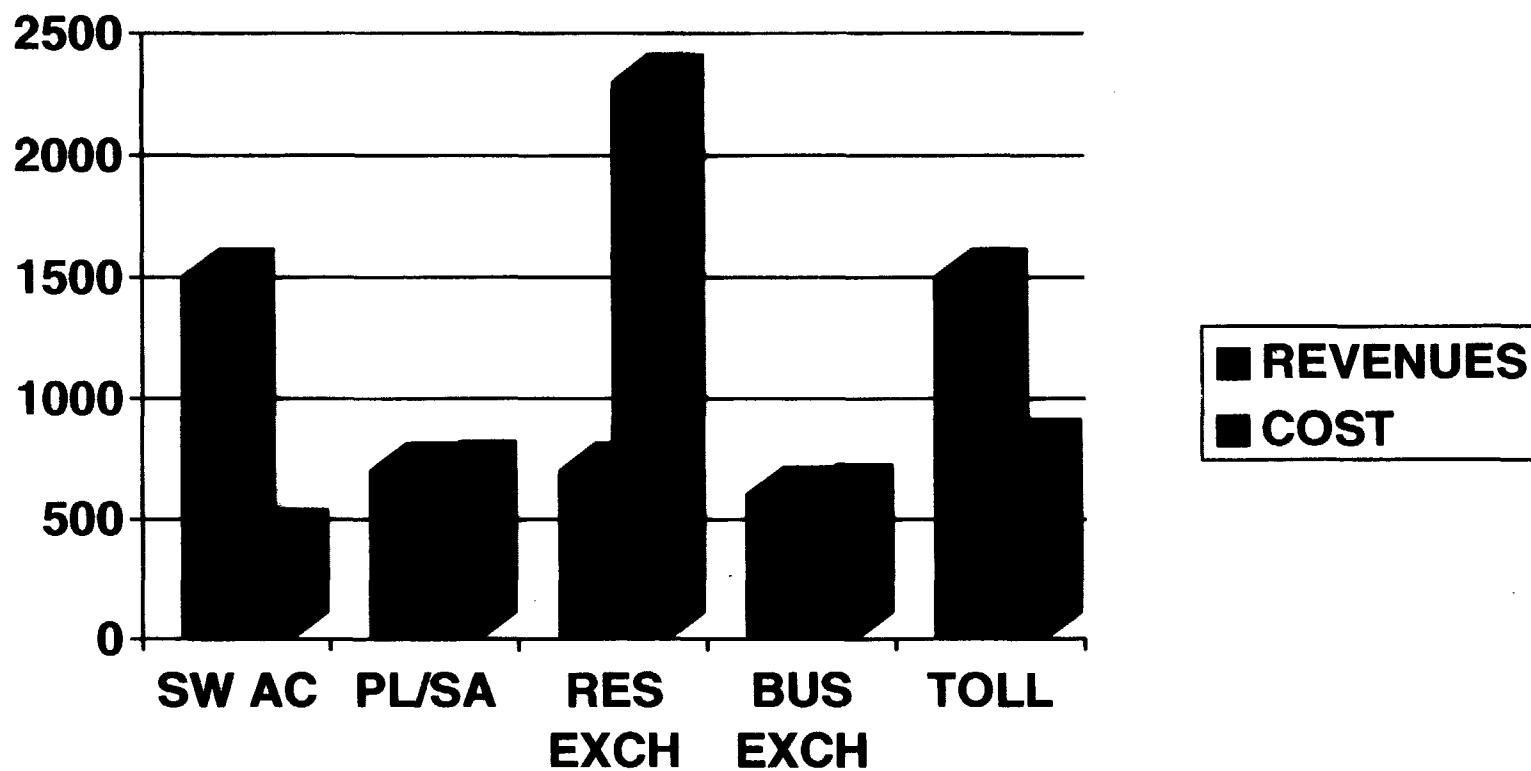
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- **Mandated local competition speeds opening of switched access markets.**
- **Results in competitive switched access market.**
- **Competitive markets can not support averaged prices.**

# THE SUBSIDY ISSUE

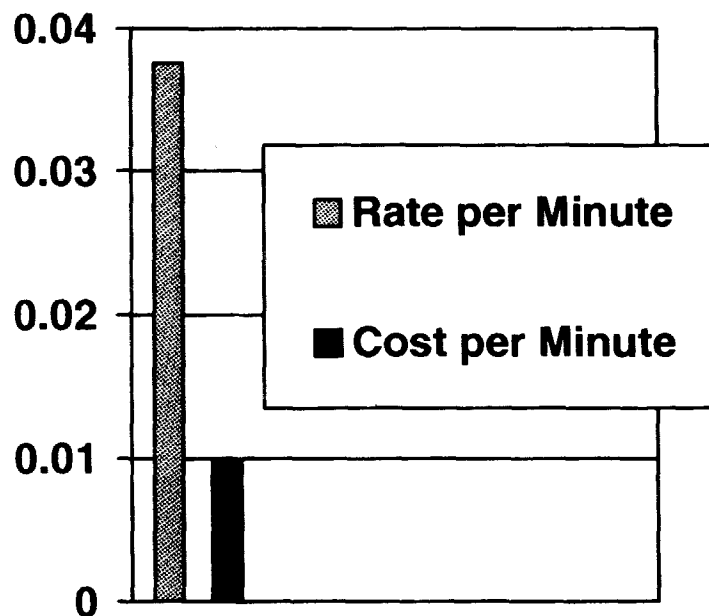
## NYNEX- NEW YORK COST STUDY

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# THE PROBLEM WITH AVERAGED RATES AND EMBEDDED SUBSIDIES

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# **NYNEX PROPOSAL FOR ACCESS REFORM**

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- **Commission Should.....**
  - » **Adopt a regulatory framework that reflects evolving competition, and**
  - » **Give companies the tools to manage access rates in a competitive environment**

# Components of Adaptive Regulatory Framework Change as Competition Evolves

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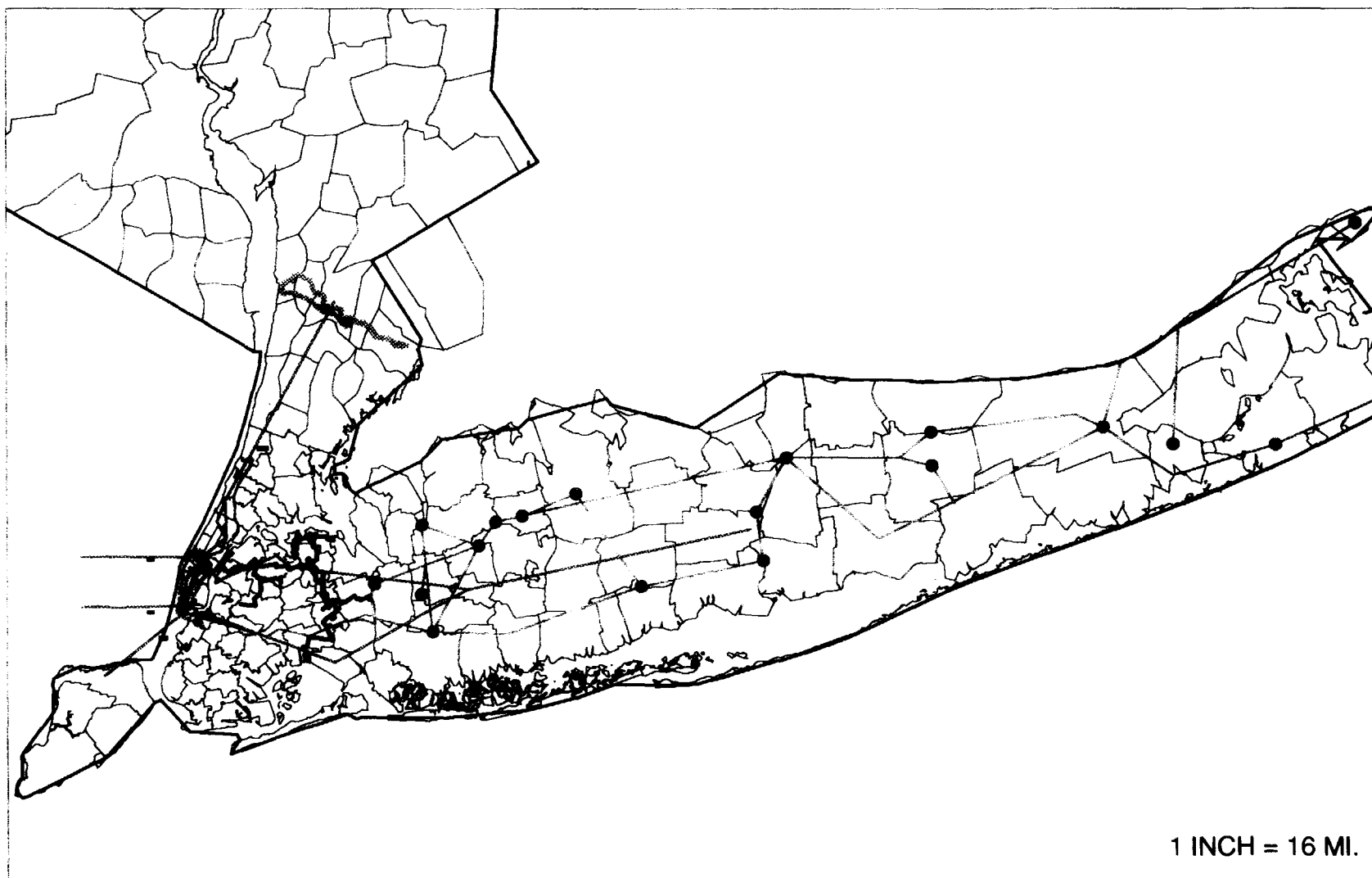
<u>Component</u>	<u>A</u>	<u>Price Cap Regulation</u> <u>B</u>	<u>C</u>
Rate Structure	—————▶	Pro-competitive Structural Changes	—————▶
Pricing Flexibility	—————▶	Increased Pricing Flexibility	—————▶
Price Cap Baskets	—————▶	Simplify / Reduce Basket Structure	—————▶
Price Cap Productivity	—————▶	Reduced X Factor	—————▶
Subscriber Line Charge	—————▶	Increase/Deaverage	—————▶

# **NYNEX's Adaptive Regulatory Model**

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- **Phase 1 - Price Cap Regulation - Region Wide**
  - **Framework A - Baseline**
    - No competitive presence or market entry.
  - **Framework B - Barriers to Entry Removed and Competitor Present**
    - Competitive structure available in jurisdictions representing 75% of lines.
    - Competitor is operational in-region.
  - **Framework C - Significant Competitive Presence**
    - Competitive structure in place throughout entire region.
    - Competitive presence throughout major segments of LEC market.

## COMPETITORS SERVING THE NEW YORK METROPOLITAN AREA...



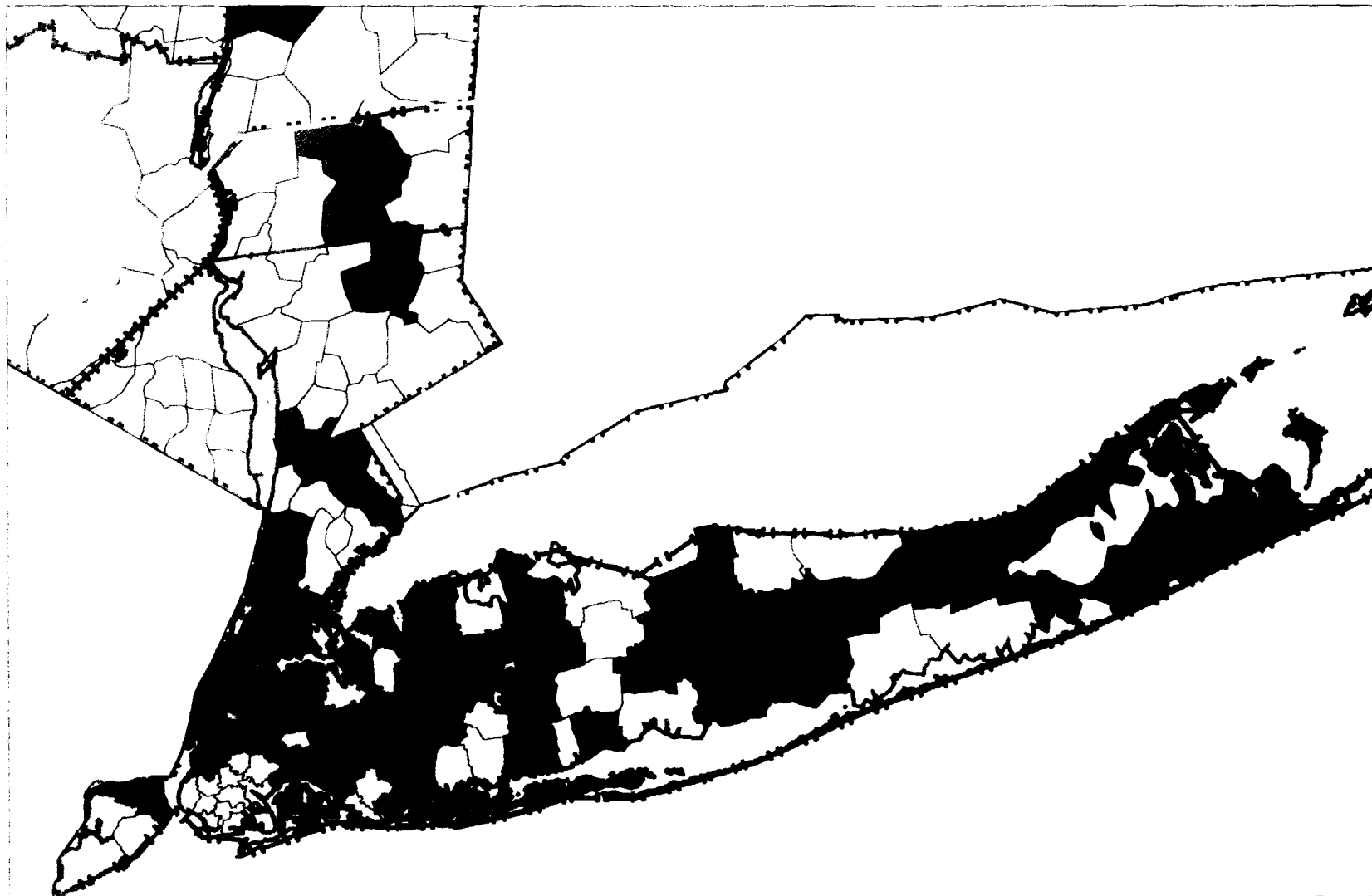
**MFS**

**Cablevision Lightpath**

**Teleport**

**Time Warner**

# COMPETITIVE WIRE CENTERS IN NEW YORK CITY METROPOLITAN AREA....



■ ZONE 1    - - - SMSA    LATA    COUNTY  
■ COMPETITIVE WIRE CENTERS



# **NYNEX's Adaptive Regulatory Model**

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- **Phase 2 - Streamlined Regulation**
  - **Products and areas are subject to effective competition.**
  - **A service, or group of services, in the relevant market area are removed from price caps.**
- **Phase 3 - Non-Dominant Status**
  - **Follows Streamlined Regulation.**
  - **LEC classified as non-dominant for a service, or group of services, in the relevant market area.**

## **ACCESS REFORM: FRAMEWORK A -- BASELINE**

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- **The Transport Interconnection Charge (TIC)**
  - » Separate current transport costs from residual amount
  - » Move residual to Separate Basket
    - Freeze revenue level
    - Target future price decreases
    - Eliminate as embedded plant base is amortized
    - Charge IXC based on market share of minutes
- **Introduce new Feature Group “E”**
  - » Designated for Enhanced Service Providers
  - » Data transport
  - » Cost priced

## **ACCESS REFORM: Framework B**

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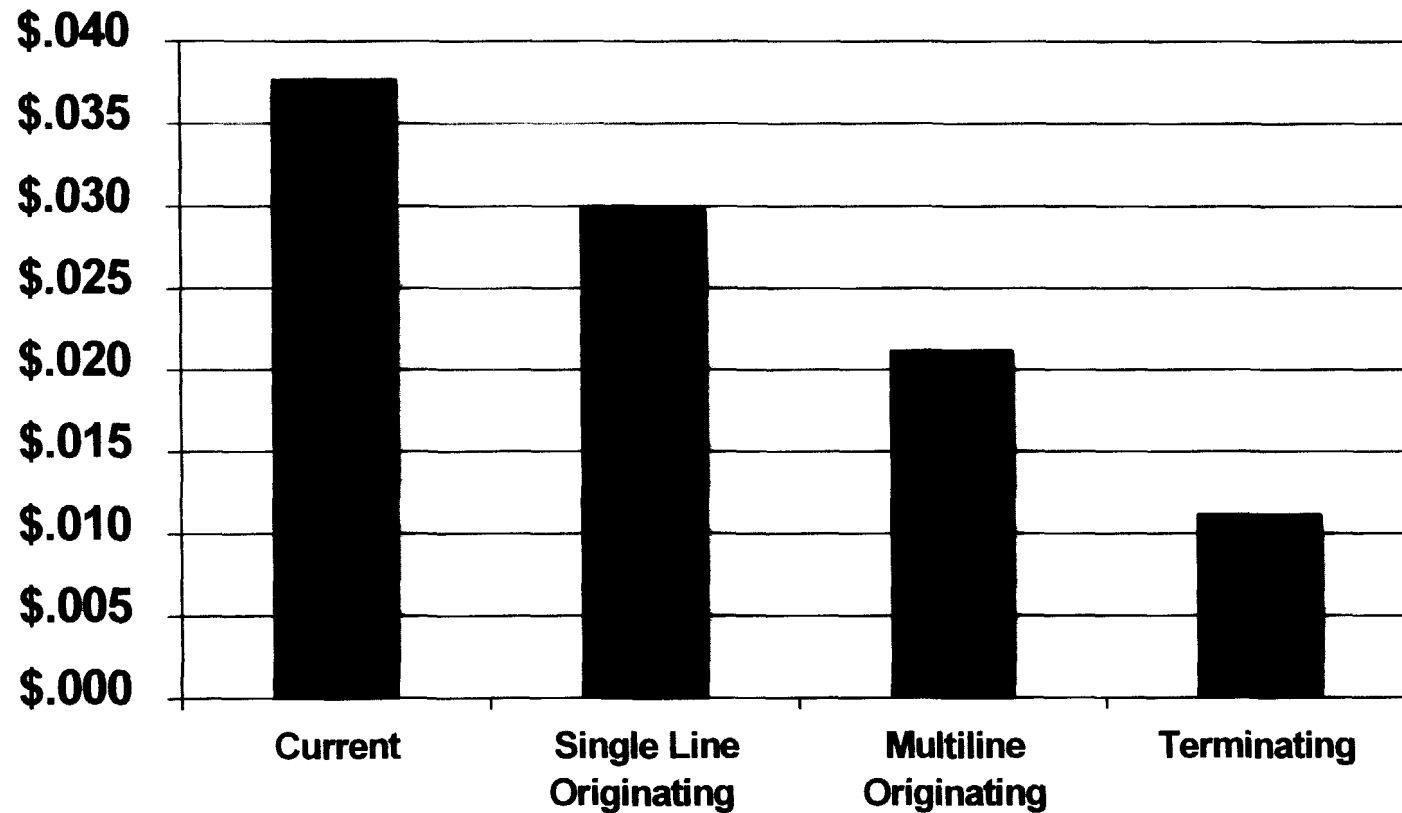
- **“USPP” like rate structure**
  - » Access rates by zone, and by single line and multiline usage
  - » Reduce multiline Carrier Common Line (CCL) to \$0.00
  - » Remove non-traffic sensitive costs from Local Switching
    - Recover both multiline CCL and non-traffic sensitive Local Switching from IXC's on a per line basis
  - » NECA Long Term Support removed
    - Part of small LEC Universal Service Fund
- **Increase single line EUCL by \$.50 (to \$4.00)**

## **ACCESS REFORM: Framework C**

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- Establish separate originating and terminating switched access rates
  - » Single line CCL → Apply to originating only
  - » Traffic cost based TIC → Apply to originating only
- Single line EUCL in zones 2 & 3 increase by \$1.00 (to \$5.00)
- Realign Price Cap Baskets
  - » Switching
  - » Trunking
  - » Residual

# ACCESS REFORM: PROPOSED SWITCHED ACCESS RATES



- Proposed per line charge to IXC's of --
- Proposed TIC Recovery of --

\$1.50/line/month  
\$35M/month

# **Public Policy Benefits of NYNEX's Adaptive Regulatory Model**

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- Provides clear signals, in advance, to the market of changing regulatory framework.
- Provides incentives to LECs to facilitate the evolution of competition.
- Addresses concerns of regulators and competitors that LECs will use pricing flexibility to hinder competition.
- Addresses concerns of LECs and provides assurance that regulation will adapt and keep pace with competitive developments.
- Eliminates continuing regulatory scrutiny of waivers requested in response to competition.